

THE BAKER-RAULANG COMPANY

CLEVELAND, OHIO



REPORT TO SHAREHOLDERS

FOR YEAR ENDING DECEMBER 31, 1944

THE BAKER-RAULANG COMPANY

REPORT TO SHAREHOLDERS

Cleveland, O., March 1, 1945.

TO THE SHAREHOLDERS OF THE BAKER-RAULANG COMPANY:

In the pages following this letter there appear the financial statements of your Company for the year 1944. These have been examined by Ernst & Ernst, Certified Public Accountants, as reported in their letter of December 31st, which is included in this Report.

The Profit and Loss Statement includes in the overall figures of the Company the net sales and operating profits of the Industrial Truck and Commercial Body Divisions located in the West 25th and West 80th street factories respectively.

The following comparative table sets forth summaries pertaining to the business of your Company for the past three war-time years during which period it has been subject to renegotiation. Figures are in even thousands of dollars.

	<u>Net Sales Volume</u>	<u>Overall Operating Profit</u>	<u>Allowances— Renegotiation Federal Taxes</u>	<u>Net Earnings Before Postwar Reserves</u>	<u>Postwar Reserves</u>
1942.....	\$6,882,000	\$1,530,000	\$1,302,000	\$229,000	\$123,000
1943.....	7,706,000	1,774,000	1,529,000	245,000	100,000
1944.....	6,406,000	1,219,000	932,000	*171,000	50,000

*This figure reflects a loss incurred from the sale of the West 25th property. The net earnings for 1944 from operations and comparable to those shown for the two preceding years are \$193,000.

Postwar Reserves, including \$27,000 provided in 1941, totaled \$300,000 at the 1944 year-end. They are in part funded by the postwar Treasury credits returnable to the Company under the provisions of the Federal Tax Law. About \$42,500 of the 1944 net earnings are represented by such credits.

Reflecting the Postwar Reserves shown in the above table the net profits for 1942, 1943 and 1944 are respectively \$106,000, \$144,000 and \$121,000. During 1944 your Company paid dividends to Preferred shareholders in the amount of \$35,367.50 and to Common shareholders \$15,649.00. There was set aside in a sinking fund for the purchase of Preferred shares by tender \$7,824.00. The total of these dividends and sinking fund payments is \$58,840.00.

Examination of the Divisional accounts shows that the greater part of the reductions in the Company's Volume and Overall Operating Profits for 1944 are the result of changes in the business of the Body Division. The larger production schedules of 1943 were completed or otherwise terminated during early 1944. These were replaced in part by many smaller schedules secured largely through the Smaller War Plants Corporation.

Nearly all classes of business involved lower margins of profits either as a result of increasing costs under ceiling prices of 1941, in the case of all truck products, or lower prices in relation to costs, prevailing in the market for body products. Also this lower margin of profit resulted from the Company's greater proportion of war work,—a correspondingly larger portion of the Company's products being thereby subject to renegotiation.

The Government's insistence, in spite of renegotiation, upon "Forward Pricing" and time consuming cost inspections of individual contracts tends to increase costs and reduce volume as well as overall operating profits. Shortages of effective labor in this area have been quite pronounced and in many instances hindered our sources of materials. These shortages have reduced the 1944 volume to some extent.

The Overall Operating Profit is before payment or allowance for Reserves, Renegotiation Refunds, and Federal Taxes. The allowance for Renegotiation shown from 1944 is based upon the experience of 1943 and other factors known or estimated by customary accounting practice.

In our Report to Shareholders of March 1, 1944 there was mention of a tentative plan for the integration of our two Divisions into a single manufacturing unit. The development of this plan provides that this combined unit be established at the West 80th Street location after the National Emergency is ended and it becomes practicable to effect the consolidation. Substantial economies in all phases of the business should result from this integration of facilities and efforts and should put your Company in much better position for postwar business.

One problem of this integration was the disposal of the West 25th Street factory when vacated. Through a combination of circumstances there was developed an opportunity for a satisfactory sale of this property during the latter part of 1944. This sale was made subject to a leasing arrangement permitting the continued use of the property as required for full participation in future war contracts and the later transfer of the manufacturing equipment.

Passing over the accounting details involved in this sale the probable net result is a loss of about \$22,000 after allowance for that portion of the overall loss which it is believed will be acceptable to the Treasury as an income tax credit. This net loss to your Company reduces the net earnings from operations from \$193,000 to the approximate \$171,000 before provision for Postwar Reserves as shown in the above comparative table. Your Directors were of the definite opinion that to delay the sale of this property until vacated would risk a substantially greater loss at some future time.

During 1944, as in previous war years, your Company has cooperated with the many Government agencies with which it has contact and has reasonably complied with the various regulations including those affecting labor relations and employment. It has been complimented upon its performance upon several occasions and has produced some four times its prewar volume in earnest support of the war effort.

Aside from the satisfaction resulting from this creditable record the facts are that the larger volume of renegotiable war contracts and the approximate 20% overall operating profit earned upon them is reflected in relatively minor degree in net profits because such a large percentage of the operating profits are returnable to the Treasury in Renegotiation Refunds and Federal Taxes.

The national experience of recent years in greater and speedier production and transportation of materials has given a great impetus to the use of all kinds of material handling machinery and equipment, of which industrial trucks, tractors, and cranes and allied equipment are important types. Broad social changes as to the status of labor required more efficient and safer tools for the handling of heavy materials. The large and comprehensive material handling equipment industry will no doubt have an important place in the postwar world.

The principal products now manufactured by the Truck Division are Electric Fork Trucks and Crane Trucks. Special Explosion Proof Trucks are used for the handling of ammunition; both trucks and cranes are used for handling of materials in military depots and in repair bases. Various types are also supplied for commercial use, mostly for war production as authorized by WPB.

The Body Division has a more varied class of work. Some of the more important classes of products are special bodies, road trailers and fabricated parts for military vehicles; bomb skids for the handling of bombs on aircraft carrier ships; material handling equipment such as slings and industrial trailers; parts used for landing crafts; rocket launcher units; and many kinds of fabricated textile units such as gun covers, parts of tents, etc.

As to prospects of 1945, many uncertain factors make it difficult to project an intelligent estimate. However, your Company now has on its books a substantial volume of business and further potential business is being developed. Subject to the continued requirement of these war products it seems probable that the 1945 volume might approximate that of 1944 should sufficient manpower be procurable and other like manufacturing conditions prevail throughout the year.

Respectfully submitted,

E. J. BARTLETT,

President.

Data For Report To Stockholders
THE BAKER-RAULANG COMPANY, CLEVELAND, OHIO
December 31, 1944

Board of Directors,
The Baker-Raulang Company,
Cleveland, Ohio.

We have examined the balance sheet of The Baker-Raulang Company as of December 31, 1944, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Except that it was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

We tested trade receivables by direct communication with selected customers. Inventories of service and production parts, sub-assemblies, and raw materials are based on counts, weights or measurements made by employees of the Company as of December 31, 1944, and priced at lower of cost or market. Quantities of parts and sub-assemblies charged to orders in process and not delivered from such orders prior to December 31, 1944, as shown by records maintained, were also checked by employees of the Company as of that date. Inventories of orders in process represent accumulated costs less estimated amounts for deliveries to December 31, 1944, and are based on cost procedures which have been followed consistently for a number of years. Cost of direct labor and material generally represents actual costs on first-in, first-out basis. Manufacturing overhead is included at standard departmental rates which, as applied to operations for the year 1944, did not in the aggregate exceed actual manufacturing expenses. We observed inventory procedures at the end of the year and tested the basis of pricing.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of The Baker-Raulang Company at December 31, 1944, and the results of its operation for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
March 3, 1945

THE BAKER-RAULANG COMPANY

BALANCE SHEET

December 31, 1944

Assets

CURRENT ASSETS

Cash		\$ 217,554.00	
U. S. Treasury Notes—Tax Series C—at cost and accrued interest	\$ 910,456.40		
Less portion applied against liability for federal taxes on income	880,000.00	30,456.40	
Trade accounts receivable	\$ 522,807.16		
Contract termination claims	34,787.11		
	\$ 557,594.27		
Less reserve	4,500.00	553,094.27	
Inventories—at lower of cost or market:			
Service parts	\$ 251,010.71		
Parts and sub-assemblies	315,048.66		
Orders in process	415,992.85		
Raw materials	175,890.56		
	\$1,157,942.78		
Material in transit	18,634.73	1,176,577.51	\$1,977,682.18

OTHER ASSETS

Estimated postwar refund of federal excess profits taxes		\$ 111,722.75	
Cash on deposit for purchase of Preferred shares—Note B		19,617.60	
Sundry deposits, advances, and receivables ...		13,568.78	144,909.13

PROPERTY, PLANT, AND EQUIPMENT—at cost less reserves for depreciation and amor- tization

Land		\$ 141,010.53	
Buildings, machinery and equipment	\$ 584,586.67		
Less reserves for depreciation	383,528.94	201,057.73	
Emergency facilities	\$ 271,234.41		
Less reserves for amortization	133,389.74	137,844.67	479,912.93

PATENTS AND GOOD WILL

Nominal amount			1.00
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DEFERRED CHARGES

Small tools and factory supplies.....	\$ 17,569.06		
Prepaid insurance, taxes, etc.	13,536.29	31,105.35	
		<u>\$2,633,610.59</u>	

THE BAKER-RAULANG COMPANY

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES

Accounts payable:

Trade accounts	\$ 263,432.10		
Salaries, wages, and commissions	139,952.77		
Pay roll taxes	14,666.34		
Deductions from pay rolls for employee purchase of war bonds	7,196.21	\$ 425,247.42	

Accrued:

Federal capital stock tax	\$ 15,000.00		
Local taxes	5,867.62	20,867.62	

Estimated liability for renegotiation refund
and federal taxes on income for the year
ended December 31, 1944—Note A

\$ 974,500.00

Less portion of U. S. Treasury Notes—Tax
Series C—purchased and held for payment
of taxes

880,000.00 94,500.00 \$ 540,615.04

RESERVE

For postwar adjustments and general contin-
gencies

300,000.00

CAPITAL STOCK AND SURPLUS

Capital stock:

Preferred stock, \$5.00 cumulative if
earned, par value \$100.00 per share,
redeemable at \$105.00 a share and ac-
cumulated unpaid dividends:

Authorized 7,500 shares; issued

7,443 shares

\$ 744,300.00

Less 492 shares retired

49,200.00 \$ 695,100.00

Common stock, par value \$1.00 per
share:

Authorized 100,000 shares; is-
sued (including shares re-
served for exchange) 78,243
shares

78,243.00

Surplus:

Capital surplus

\$ 538,691.38

Earned surplus—since July 1, 1936

480,961.17

\$ 773,343.00

1,019,652.55

1,792,995.55

\$2,633,610.59

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Statement Of Surplus

Year ended December 31, 1944

CAPITAL SURPLUS

Balance at January 1, 1944 \$ 526,622.38

Add:

Excess of par value over cost of 331 shares of Preferred
stock purchased for retirement 12,069.00

BALANCE DECEMBER 31, 1944.... \$ 538,691.38

EARNED SURPLUS (since July 1, 1936)

Balance at January 1, 1944 \$ 420,397.12

Add:

Net profit for the year—Note A 121,160.06

\$ 541,557.18

Deduct:

Cost of renegotiation refund for the year 1943 in excess
of provision made therefor—Note A\$ 9,579.91

Dividends paid:

On Preferred stock—\$5.00 per share\$ 35,367.50

On Common stock—\$.20 per share..... 15,648.60 51,016.10 60,596.01

BALANCE DECEMBER 31, 1944.... \$ 480,961.17

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Profit and Loss Statement

Year ended December 31, 1944

	INDUSTRIAL TRUCK DIVISION	COMMERCIAL BODY DIVISION	COMBINED
Net sales	\$4,275,699.39	\$2,130,640.75	\$6,406,340.14
Cost of goods sold	2,825,683.12	1,681,872.97	4,507,556.09
	<u>GROSS PROFIT</u>	<u>\$ 448,767.78</u>	<u>\$1,898,784.05</u>
Expenses:			
Sales engineering	\$ 509,040.84	\$ 23,913.16	\$ 532,954.00
Administrative and general	110,738.35	65,090.15	175,828.50
	<u>TOTAL EXPENSES</u>	<u>\$ 89,003.31</u>	<u>\$ 708,782.50</u>
	<u>OPERATING PROFIT</u>	<u>\$ 359,764.47</u>	<u>\$1,190,001.55</u>
Other income:			
Commissions earned		\$ 25,072.72	
Interest earned		8,413.10	
Net income from rental property		3,329.50	
Sundry income		337.47	37,152.79
			<u>\$1,227,154.34</u>
Other deductions:			
Loss on sale of West 25th Street land and buildings and sale of other equipment ...		\$ 115,939.50	
Commitment commission for revolving credit agreement		8,054.78	123,994.28
			<u>\$1,103,160.06</u>
PROFIT BEFORE TAXES ON INCOME, PROVISION FOR RENEGOTIATION AND SPECIAL CHARGE			
Provision for renegotiation liability and federal taxes on income—estimated:			
Provision for the year—Note A		\$ 974,500.00	
Less postwar refund of excess profits tax .		42,500.00	932,000.00
			<u>\$ 171,160.06</u>
NET PROFIT BEFORE SPECIAL CHARGE Special charge:			
Provision for postwar adjustments and general contingencies			50,000.00
			<u>\$ 121,160.06</u>
TRANSFERRED TO SURPLUS			

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Notes to Financial Statements

December 31, 1944

Note A—Renegotiation proceedings under the Renegotiation Act for the year 1943 were concluded during the year 1944 and resulted in a gross refund of \$875,000.00 less credit for applicable federal taxes on income. Provision for renegotiation refund for the year 1944 is based on the factors considered in renegotiation proceedings for year 1943 and is included in the provision for renegotiation refund and federal taxes on income charged against operations for the year 1944. The provision for renegotiation refund and federal taxes on income for the year 1943 was \$9,579.91 less than the net refund and federal taxes on income paid for that year, after giving consideration to the adjusted estimated refund of excess profits taxes. The underprovision for the year 1943 has been charged to earned surplus.

Note B—Whenever a cash dividend is paid on Common shares there shall be set aside in a sinking fund for the purchase for retirement of Preferred shares an amount equal to at least one-half but not in excess of the aggregate amount of such dividend. Deposits in the sinking fund for this purpose during the year 1944 aggregated \$7,824.30. During the year 1943 the Board of Directors also established another fund for the purchase for retirement of Preferred shares. During the year 1944 additional deposits aggregating \$13,597.50 were made to this fund. Three hundred and thirty-one shares of Preferred stock were purchased for retirement during the year 1944 at a cost of \$21,031.00.

Note C—Dividends on Preferred stock, to the extent earned but not in excess of \$5.00 per year, shall be cumulative when not paid on or before October 1st of the year following that in which earned. The first dividend of \$1.25 per share paid on Preferred stock during the year 1944 completed payments aggregating \$5.00 a share applicable to the year 1943 and three other dividend payments on Preferred stock aggregating \$3.75 per share applicable to the year 1944 were paid during the year.

Note D—The Company entered into a revolving bank credit (VT type loan) agreement on March 7, 1944, which provides a maximum credit of \$2,000,000.00. Notes issued under this agreement shall be payable on or before December 31, 1946. No advances under this agreement were made during the year ended December 31, 1944. In connection with this agreement the Company covenants, among other things, that (1) the aggregate par value of all direct obligations of the United States which are negotiable or currently redeemable plus the unused portion of the credit available under this agreement shall not be less than all unpaid federal taxes for prior years and 80% of the accrued federal taxes for the current year, (2) net working capital of not less than \$800,000.00 shall be maintained, and (3) purchases, acquisitions and retirements of stock (as defined), advances and loans to officers, and dividend and other distributions shall not exceed 60% of the net earnings of the Company (as defined) after January 1, 1944, plus the sum of twenty-five thousand dollars.

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THE BAKER-RAULANG COMPANY

CLEVELAND, OHIO



REPORT TO SHAREHOLDERS

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FOR YEAR ENDING DECEMBER 31, 1945

THE BAKER-RAULANG COMPANY

Cleveland, Ohio

Board of Directors

E. J. Bartlett

Irving C. Bolton

George S. Case

George B. Folk

J. W. Moran

Laurence H. Norton

Robert C. Norton

E. J. Stahl

Fred R. White, Jr.

Officers

E. J. Bartlett-----President

E. J. Stahl-----Vice President

J. W. Moran-----Secretary & Treasurer

E. J. Scovil-----Asst. Secretary, Asst. Treasurer

THE BAKER-RAULANG COMPANY

ANNUAL REPORT

Cleveland, Ohio, March 1, 1946.

TO OUR SHAREHOLDERS:

We present herewith the annual report of your Company including financial statements covering its operations for the year ending December 31, 1945. These financial statements cover the operations of both the Industrial Truck Division and the Commercial Body Division and have been examined by Ernst & Ernst, Certified Public Accountants. Their letter certifying to such examination is a part of this report.

The Over-All Operating Profit of your Company for the year 1945 before Federal taxes and renegotiation was \$1,119,000.00, or about 18½%, of the Net Sales Volume of \$6,022,000.00. Reserves to meet Federal taxes and renegotiation requirements based upon experience in prior years and upon recognized sound accounting practices were set up during the year. Deducting these allowances from the Over-All Operating Profit resulted in net earnings before postwar reserves of \$197,000.00, or about 3.2%, of net sales. Of this amount \$30,000.00 was allocated to the postwar reserve account, leaving net earnings available for surplus of \$167,000.00.

The following comparative table sets forth summaries in even thousands of dollars of the business of your Company for the past five years. These are the war years, including the conversion to war year of 1941 and the reconversion year of 1945.

<u>Year</u>	<u>Net Sales Volume</u>	<u>Over-All Operating Profit</u>	<u>Allowances—Renegotiation Federal Taxes</u>	<u>Net Earnings Before Postwar Reserves</u>	<u>Postwar Reserves</u>
1941	\$3,971,000	\$ 749,000	*\$ 401,000	\$348,000	\$ 27,000
1942	6,882,000	1,530,000	1,301,000	229,000	123,000
1943	7,706,000	1,774,000	1,529,000	245,000	100,000
1944	6,406,000	1,219,000	913,000	190,000	50,000
1945	6,022,000	1,119,000	922,000	197,000	30,000

* Federal Taxes only—Renegotiation became effective April 1, 1942.

During 1941 both the Industrial Truck and the Commercial Body Divisions were converted to war work and a substantial portion of the Net Sales Volume for the last half of that year was of military character. Expenses of conversion during that year reduced the Over-All Operating Profit somewhat, however, inasmuch as earnings were not subject to renegotiation and Federal taxes were lower than in later years, the ratio of Net Earnings to the sales dollar was more favorable than for the subsequent period.

The figures shown for the years 1942 to 1945 inclusive reflect substantial production of war contracts. This was particularly true of the Commercial Body Division, which manufactured various kinds of equipment for Government agencies under prime contracts and produced a considerable volume of fabricated parts and materials as sub-contractor. The Industrial Truck Division produced under prime contracts electric trucks of its own design, and in addition many trucks and cranes especially designed to meet the requirements of the agencies purchasing them. It also supplied its standard trucks to commercial users engaged in war work.

The operations of the Company for the last four months of 1945 were somewhat irregular because of cancellations, partial termination and settlements of war contracts. Some production capacity thus liberated was turned to commercial business which with war work to be completed maintained the Company's sales volume so that there was little drop in Net Sales Volume when compared with the preceding year. The Net Sales Volume for the conversion to war year of 1941 was about 51% of that for the reconversion year 1945. Nevertheless the net earnings for 1941 were almost twice that of 1945 because in 1941 Federal taxes were substantially lower and renegotiation had not yet become effective. This illustrates very plainly how much increased Federal taxes and renegotiation affected net earnings during the war period.

At the close of each year during the war period a portion of net earnings was allocated to a postwar reserve account, which at the end of 1945 totalled \$330,000.00. The extent of the annual accumulation of this postwar reserve is shown in the above tabulation. The application of this postwar reserve to certain reconversion expenses in connection with integration of the Company's operations and consolidating its operations in a single manufacturing unit at West 80th Street will be discussed more in detail later on in this report.

During 1945 your Company paid dividends to Preferred shareholders in the amount of \$34,513.00 and to Common shareholders dividends in the amount of \$15,649.00. In compliance with provisions in its Articles of Incorporation there was set aside in a sinking fund for the purchase of Preferred shares \$7,824.00, thereby making a total of dividend and sinking fund payments of \$57,986.00. After providing for postwar reserves and the dividend paid Preferred shareholders there remained from Net Earnings approximately \$133,000.00.

In previous annual reports mention has been made of the plan to integrate the two divisions of the Company into a single manufacturing unit, to be located at West 80th Street. During 1945 considerable work was done toward getting the buildings now at that location ready to receive certain department of the Industrial Truck Division. Before the bulk of the machine tools are moved a new building will be required to complete the West 80th Street unit, so that ample provisions can be made for a modern machine shop and other heavy operations requiring ground floor space. It is our plan to carry out this combination of divisions with as little interruption of normal operations as possible. Substantial economies in all phases of the Company's business should result from the consolidation of your Company's operations in a single and better equipped factory unit.

During the years reviewed your Company has worked in close cooperation with the many Government agencies which it has served. It has been complimented many times upon its performance of its contracts and each of its divisions has received Army and Navy "E" awards. The Company's future plans call for a concentration on products within the material handling industry, with emphasis upon electrically operated industrial trucks, tractors and cranes. Our line of gas operated trucks has been redesigned and will be in production as market possibilities are developed.

A nation wide demand in recent years for greater and speedier production has given a great impetus to the use of all kinds of material handling equipment. Changes in the costs and status of labor require more efficient and safer tools for the handling of materials. Power industrial trucks and allied equipment seem definitely in the line of such development. We hope to improve and expand the line of industrial trucks manufactured by our Company and keep abreast of these increasing needs. To that end there has been provided the postwar reserve referred to above. The cash assets of the Company have been conserved or used sparingly while the situation clears as to reconversion and postwar conditions.

As to the prospects for 1946, many uncertain factors make it impossible to soundly venture more than a brief analysis of the conditions now prevailing. The present demand for our products, evidenced by orders on hand and definite prospects for orders, is encouraging. The Net Sales Volume for the year will probably be limited by production problems rather than lack of orders.

Most of our products are at present marketed under 1941 ceiling prices and we face very definite and important increases in material and labor costs which makes operating profits uncertain. On the other hand, we expect some relief. With no renegotiation refund required and lower Federal tax rates we believe that the 1946 operations will result in a much better ratio of Net Earnings to Over-All Operating Profits.

However, 1946 results will depend very largely upon two all important factors,—how soon the current wage price controversies in general industry will be settled into a workable pattern, and how quickly O.P.A. affords relief in respect to prices for our specific industry.

Respectfully submitted,

E. J. BARTLETT,

President.

THE BAKER-RAULANG COMPANY, CLEVELAND, OHIO

December 31, 1945

Board of Directors,
The Baker-Raulang Company,
Cleveland, Ohio.

We have examined the balance sheet of The Baker-Raulang Company as of December 31, 1945, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Except that it was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Trade accounts receivable were tested by direct correspondence with selected debtors and we tested data evidencing contract termination claims. We observed inventory procedures followed by employees of the Company in ascertaining quantities of service parts, sub-assemblies, and raw materials during the month of December 1945, and reviewed subsequent transactions to December 31, 1945. Inventories of orders in process represent accumulated costs less estimated amounts for deliveries to December 31, 1945, and are based on cost procedures which have been followed consistently for a number of years.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of The Baker-Raulang Company at December 31, 1945, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Certified Public Accountants

Cleveland, Ohio
March 4, 1946

THE BAKER-RAULANG COMPANY

BALANCE SHEET

December 31, 1945

Assets

CURRENT ASSETS

Cash		\$ 402,541.99
Trade accounts receivable.....	\$586,879.34	
Contract termination claims.....	255,516.41	
	<u>\$842,395.75</u>	
Less reserve.....	4,500.00	837,895.75
Excess Profits Tax Refund Bonds.....		4,619.37
Claim for refund of federal taxes on income.....		49,106.00
Inventories—at lower of cost or market:		
Finished products.....	\$ 10,497.84	
Service parts and sub-assemblies.....	558,631.51	
Orders in process.....	365,301.69	
Raw materials.....	144,725.82	1,079,156.86
	<u></u>	<u></u>
TOTAL CURRENT ASSETS....		\$2,373,319.97

OTHER ASSETS

Postwar refund of excess profits taxes—estimated	\$ 64,603.39	
Claim for refund of renegotiation payments.....	9,569.68	
Cash on deposit for the purchase of Preferred shares—Note B.....	2,611.90	
Sundry deposits and receivables.....	13,321.74	90,106.71
	<u></u>	<u></u>

PROPERTY, PLANT, AND EQUIPMENT—at cost

less reserves for depreciation and amortization— Note A		
Land	\$141,010.53	
Buildings, machinery, and equipment.....	\$637,019.12	
Less reserves for depreciation.....	413,556.69	223,462.43
	<u></u>	<u></u>
Emergency facilities.....	\$270,315.81	
Less reserves for amortization.....	270,315.81	—0—
	<u></u>	<u>364,472.96</u>

PATENTS AND GOOD WILL..... 1.00

DEFERRED CHARGES

Small tools and factory supplies.....	\$ 30,402.48	
Prepaid insurance and taxes.....	8,090.65	38,493.13
	<u></u>	<u></u>
		\$2,866,393.77

THE BAKER-RAULANG COMPANY

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES

Accounts payable.....	\$ 117,455.96	
Salaries, wages, and commissions.....	93,484.64	
Pay roll taxes.....	12,429.58	
Accrued real estate taxes.....	5,846.44	
Estimated liability for renegotiation refund and federal taxes on income for the year ended December 31, 1945—Note D.....	\$ 922,000.00	
Less United States Treasury Notes—Tax Series (purchased and held for tax payments)...	509,728.50	412,271.50
TOTAL CURRENT LIABILITIES		\$ 641,488.12

RESERVE FOR POSTWAR ADJUSTMENTS AND CONTINGENCIES

330,000.00

CAPITAL STOCK AND SURPLUS

Capital stock:

Preferred stock, \$5.00 cumulative is earned,
par value \$100.00 per share, redeemable
at \$105.00 a share and accumulated un-
paid dividends:

Authorized 7,500 shares; issued 7,443 shares.....	\$744,300.00	
Less 774 shares retired.....	77,400.00	\$ 666,900.00

Common stock, par value \$1.00 per share:

Authorized 100,000 shares; issued (in- cluding shares reserved for ex- change) 78,243 shares.....	78,243.00	
	<u>745,143.00</u>	

Surplus:

Capital surplus.....	\$542,061.38		
Earned surplus—since July 1, 1936.....	607,701.27	1,149,762.65	1,894,905.65
		<u>1,894,905.65</u>	
			<u><u>\$2,866,393.77</u></u>

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Statement of Surplus

Year ended December 31, 1945

CAPITAL SURPLUS

Balance at January 1, 1945.....	\$538,691.38
Add:	
Excess of par value over cost of 282 shares of Preferred stock purchased for retirement.	3,370.00
	<u> </u>
BALANCE DECEMBER 31, 1945....	\$542,061.38

EARNED SURPLUS (since July 1, 1936)

Balance at January 1, 1945.....	\$480,961.17
Add:	
Balance transferred from profit and loss—Note D	\$167,792.58
Excess of provision for renegotiation refund for the year 1944 over cost thereof.....	18,525.10
	<u> </u>
	186,317.68
	<u> </u>
	\$667,278.85

Deduct:

Dividends paid:

On Preferred stock—\$5.00 per share.....	\$34,513.75
On Common stock—\$.20 per share.....	15,648.60
	\$ 50,162.35

Net charge resulting from additional amortization of emergency facilities for prior years, less applicable reduction in federal income taxes and renegotiation payments—Note A

YEAR	ADDITIONAL AMORTIZATION	REDUCTION OF FEDERAL INCOME TAX PAYMENTS AND RENEGOTIATION PAYMENTS		
1941	\$ 1,729.33	\$ 1,252.02		
1942	6,158.44	5,553.85		
1943	26,175.92	22,586.00		
1944	34,027.22	29,283.81		
	<u> </u>	<u> </u>		
TOTALS....	\$68,090.91	\$58,675.68	9,415.23	59,577.58
			<u> </u>	<u> </u>
BALANCE DECEMBER 31, 1945....				\$607,701.27

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Profit and Loss Statement

Year ended December 31, 1945

	INDUSTRIAL TRUCK DIVISION	COMMERCIAL BODY DIVISION	COMBINED
Net sales	\$3,810,417.58	\$2,211,845.32	\$6,022,262.90
Cost of goods sold.....	2,545,656.77	1,725,082.88	4,270,739.65
	<hr/>	<hr/>	<hr/>
GROSS PROFIT..	\$1,264,760.81	\$ 486,762.44	\$1,751,523.25
Expenses:			
Sales engineering	\$ 431,035.85	\$ 19,752.89	\$ 450,788.74
Administrative and general.....	117,496.98	68,112.02	185,609.00
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES..	\$ 548,532.83	\$ 87,864.91	\$ 636,397.74
	<hr/>	<hr/>	<hr/>
OPERATING PROFIT..	\$ 716,227.98	\$ 398,897.53	\$1,115,125.51
Other income:			
Interest earned.....		\$ 7,160.10	
Net income from rented property.....		3,200.21	
Commissions earned.....		2,011.60	
Profit on disposal of depreciable assets.....		560.81	
Sundry income.....		474.06	13,406.78
		<hr/>	<hr/>
			\$1,128,532.29
Other deduction:			
Commitment commission for revolving credit			
agreement			8,739.71
PROFIT BEFORE TAXES ON INCOME			
PROVISION FOR RENEGOTIATION			
AND SPECIAL CHARGE.....			\$1,119,792.58
Provision for renegotiation liability and for federal			
taxes on income—estimated:			
Provision for the year—Note D.....			922,000.00
			<hr/>
NET PROFIT BEFORE SPECIAL CHARGE			\$ 197,792.58
Special charge:			
Provision for postwar adjustments and con-			
tingencies			30,000.00
			<hr/>
BALANCE TRANSFERRED TO SURPLUS			\$ 167,792.58
			<hr/>

Reference is made to notes to financial statements.

THE BAKER-RAULANG COMPANY

Notes to Financial Statements

December 31, 1945

Note A—Prior to January 1, 1945, emergency facilities were being amortized over a sixty-month period and, when the period of emergency was declared expired the Company elected to accelerate amortization so as to write off the entire cost over the period from dates of acquisition to September 30, 1945. The increased amount of amortization attributable to prior years less applicable reduction in federal income taxes and renegotiation payments has been charged to surplus and the increase for the current year has been added to the provision for amortization for the year.

Note B—Whenever a cash dividend is paid on Common shares there shall be set aside in a sinking fund for the purchase for retirement of Preferred shares an amount equal to at least one-half but not in excess of the aggregate amount of such dividend. Deposits in the sinking fund for this purpose during the year 1945, aggregated \$7,824.30. During the year ninety-nine shares of Preferred stock were purchased for retirement at a cost of \$9,705.00 from this fund, and an additional one hundred and eighty-three shares of Preferred stock at a cost of \$15,125.00 were purchased for retirement from another fund established by the Board of Directors during the year 1943.

Note C—Dividends on Preferred stock, to the extent earned but not in excess of \$5.00 per year, shall be cumulative when not paid on or before October 1st of the year following that in which earned. The first dividend of \$1.25 per share paid on Preferred stock during the year 1945, completed payments aggregating \$5.00 a share applicable to the year 1944 and three other dividend payments on Preferred stock aggregating \$3.75 per share applicable to the year 1945, were paid during the year.

Note D—Renegotiation proceedings for the years 1944 and prior have been concluded. Provision for renegotiation refund for the year 1945, is based on factors considered in renegotiation proceedings for the year 1944, and is included in the provision for renegotiation refund and federal taxes on income charged against operations for the year 1945.

Note E—The revolving bank credit agreement entered into by the Company on March 7, 1944, was terminated as of December 31, 1945.

